

Dale Winch  
Ofgem  
By email only

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Dear Dale,

**Notices of statutory consultation on proposals to modify the Special, Standard Special and Standard conditions of the gas transporter licence held by National Grid Gas plc (“NGG”), each dated 15 December 2021 (“the Notices”)**

We welcome the opportunity to respond to the Notices. This response is made on behalf of NGG.

In the Annex to this letter we set out our detailed comments in relation to the proposed modifications to:

- The Special, Standard Special and Standard Conditions;
- The NARM Handbook and Workbook;
- The PCFH; and
- The Net Zero Pre-construction Work and Small Net Zero Projects Re-opener Governance Document.

We are responding separately to the related consultation on the proposed modifications to the Re-Opener Guidance and Application Requirements Document.

In addition to the detailed comments set out in the Annex we also wanted to raise the following points:

1. In regards of the NARM Handbook we have the following comments:
  - a. Under the proposed drafting the NARM Handbook and Network Asset Risk Workbook now form part of the licence. Neither document was originally drafted on this basis but given this change in approach it is essential that the documents are drafted with the same clarity and precision as the licence, in particular given that a failure to comply with either document may now give rise to a breach of licence. It is also imperative that the documents, in particular the NARM Handbook, provide a clear distinction as between content that is provided as mere guidance (and which may be amended by Ofgem direction) and content that is a requirement for licensees to comply with (which we understand will only be changed following statutory consultation). We have proposed changes in the Annex as to how the documents should be clarified in this respect.
  - b. We seek further clarity on the treatment of the deadband around the Baseline Network Risk Output (BNRO) target as part of the NARM Funding Adjustment and Penalty Mechanism and for Ofgem to confirm the intention to carry out adjustments from the BNRO in the case of Baseline delivery to account for over-/under-delivery within the deadband where no justification is required. We think the calculations and worked example do not reflect the correct intent of the deadband in RIIO-2 as set out in the Final Determinations nor is there an explicit statement defining the definition of the deadband. We recommend that both the NARM Handbook and the NARM Funding Adjustment and Penalty Calculation Model require updating to ensure the operation of this mechanism can be clearly understood by licensees in line with the RIIO-2 Final Determinations.
  - c. Whilst we welcome the additional detail laid out in the note entitled ‘*Information Note on*

*Principles of Setting Thresholds for Clearly Identifiable Over-Delivery and Under-Delivery* further discussions with Ofgem and clarity on this area will be helpful. In particular clarity on the treatment of “projects” as part of the Clearly Identifiable Over and Under Delivery (CIUO/CIUD) is needed given chapter 10 in the NARM Handbook includes additional considerations that we do not fully understand. We note that Ofgem intends to review further Unit Cost of Risk (UCR) thresholds for Clearly Identifiable Over- and Under-Delivery and we would request early discussion and clarity given this is a material issue impacting decisions around work programme planning.

- d. Please note that we have not yet provided the completed table of fixed NARM methodology parameters (Appendix 5 of the NARM Handbook), we have provided the reasoning and suggestions for next steps in the Annex.
2. This statutory consultation does not include the RIIO-GT2 Price Control Financial Model (PCFM). However, there are a number of changes to the documents under consultation which require amendment to the PCFM to provide consistency and clarity across the regulatory instruments. These amendments to the PCFM can be addressed through the PCFM Working Group which is required to meet at least once between 1 January 2022 to 1 April 2022 (under the terms of the Price Control Financial Handbook) to provide a fit for purpose PCFM for the November 2022 Annual Iteration Process.
3. RIIO-GT2 Price Control Financial Handbook (PCFH) paragraphs 2.63 - 2.66: As set out in our detailed comments in the Annex the proposed changes (and 2.63 and 2.66 in particular) introduce an inconsistency in the Allowed Revenue republication process between the licence and the PCFH. Therefore, we recommend that the proposed changes should not be implemented in their current form and any such changes to the republication policy would require further discussion with Ofgem.
4. Policy Issues associated with the NZAP Guidance document changes need to be further clarified to address the provisions made for funding contributions as the implication is that these would be for a project of a substantially innovative nature only. This will not be the case in all circumstances of funding requests.

Finally, as noted in the detailed comments in the Annex in some places, the statutory consultation drafting does not always show changes proposed to the licence in some places and the statutory notices do not make clear that the changes being proposed to the licence are those in track changes. In the final decision, it is important that the statutory notices state that the modifications being made to NGG's licence conditions are those set out in track changes in the drafting and that the drafting then shows all the appropriate changes tracked. It is imperative that it is absolutely clear what legal changes Ofgem is making to NGG's licence conditions.

For queries in relation to our consultation response please contact [Jonny.Hosford@nationalgrid.com](mailto:Jonny.Hosford@nationalgrid.com) or [Barbara.Grabe-Yates@nationalgrid.com](mailto:Barbara.Grabe-Yates@nationalgrid.com).

Yours, sincerely,



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